From Boom to Bust: Understanding Latin America's Deindustrialization in the 1980s

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Abstract. The 1980s marked a tumultuous period for Latin America, often referred to as the "lost decade," characterized by economic turmoil and social upheaval. Rapid industrialization, once a hallmark of the region's growth, gave way to deindustrialization, leaving lasting scars on the economic and social fabric. This study delves into the causes, responses, and social ramifications of Latin America's deindustrialization during this pivotal decade. Rooted in the external debt crisis, exacerbated by the second oil shock and subsequent austerity measures, the industrial model that had sustained Latin American growth reached its breaking point. Embracing neoliberal policies, governments sought to liberalize markets, privatize industries, and open up to international trade, under the influence of the Washington Consensus. However, these reforms failed to revitalize productive forces, exacerbating social inequalities and unemployment. The social costs of the crisis were staggering, leading to increased poverty, worsened income distribution, and political instability across the region. As Latin America shifted from industrialization to primary goods exports, it faced challenges of declining global competitiveness and increased dependency on external factors. Despite efforts to address these issues through regional integration and social spending, the legacy of deindustrialization continues to shape Latin America's economic landscape, highlighting the urgent need for sustainable development strategies that prioritize inclusive growth and social welfare.

Keywords. Latin America, deindustrialization, 1980s, economic crisis, neoliberalism.

1. Introduction

Latin America went through all sorts of turmoil in the 1980s and, even today, seems not to have recovered from the events of the so-called "lost decade." This period marked the end of a secular growth phase in which the region developed economically in relative terms. It quickly developed its industry at a rare pace; however, the price paid for rapid industrialization was that of an economic and social fabric that remains devastated to this day. The rapid process of industrialization, initiated around the 1920s and 1930s, was interrupted in the 1970s. However, the 1980s consolidated its end [1].

To better introduce the idea of deindustrialization, it is first necessary to define what is considered industry. In this case, the definition used in this paper is that "the industrial sector is an aggregation of four segments: mining; construction; producer of public utility services (gas, energy, water); and manufacturing or processing industry" [2].

As explored by Cano (2014) in his article, there are two types of deindustrialization: normal (or positive) and premature (or negative), with the latter being most associated with Latin America. Regarding deindustrialization, much debate surrounds its meaning. For the purpose of understanding the Latin American reality, we will use the definition established by Raphael Teles Oliveira, who believes that the concepts defined by authors such as Tregenna, Rowthorn, and Ramaswany are not sufficient to explain our reality. Thus, it is defined that the concept of deindustrialization is a process in which the share of industrial employment in total employment is falling, while there is a decline in industrial value added in GDP and a growing specialization in primary goods [3].

With this in mind, this study seeks to provide an overview of deindustrialization in Latin America in the 1980s. To do so, it will explore the causes of this deindustrialization, its confrontation, and the social and labor impacts caused by this process.

2. The Causes of Deindustrialization

The 1980s were rightfully dubbed by CEPAL as "the lost decade," marking a tragic period that left a negative mark across the entire region. Despite some harmful long-term trends, such as restrictions on the import substitution development model due to the high volume of investment and foreign exchange needed to sustain growth and the trend of fiscal overload of the State [1], the external debt crisis proved to be the main agent of the economic disaster. According to Bértola and Ocampo [1], "[...] it is unlikely that in the absence of the debt crisis, any Latin American economy would have collapsed solely under the weight of the inefficiencies of state-directed industrialization."

The recipe for rapid Latin American growth was only made possible through external indebtedness. In this sense, state-led industrialization was the recipe used by the region's countries from the 1930s until the 1980s, when the import substitution model faced exhaustion. The international context played a crucial role in the onset of the lost decade crisis.

In the 1970s, petrodollars flooded the market, making credit highly attractive for developing countries. Thus, Latin American countries took out loans at variable interest rates. However, these countries did not anticipate the second oil shock, which led the United States to increase its interest rate to 21.5% in 1981 to sustain its economy. The indebtedness of the countries rose to unpayable levels, leading them to carry out numerous debt rollovers.

The central countries feared the formation of a moratorium cartel, which could lead their own economies into significant difficulties. With this in mind, there was enormous international pressure for Latin America to repay the loans taken out with international banks [1]. The exhaustion of the Latin American development model quickly became evident and unsustainable. From then on, the ensuing years were filled with uncertainty and a search for capital recovery in the region. The solution found was trade liberalization, which "basically consisted of assigning exclusively to market forces, especially those of foreign origin, the control and direction of investment in the region" [4]. In this sense, the International Monetary Fund issued a series of recommendations for economic and institutional adjustments to be made in countries so that they could once again access international credit. These recommendations became known as the Washington Consensus (or market reforms) and had a liberal and de-statizing character, transferring control of productive forces to the invisible hand of the market.

According to Palma [5], "Perhaps the greatest difference between Latin America and Asia regarding economic reforms and attitudes toward the Washington Consensus was that the former were willing to believe that such ideology and set of economic policies had been designed by Dumbledore, while the latter instinctively knew that they were most likely the work of Voldemort." In other words, while East Asia bet on the continuity of the state and interventionist, nationalist economic policies, Latin America embraced a neoliberal experiment, which, in the future, brought irreparable consequences to some countries, such as Argentina [4].

As discussed by Antunes [4], when in 1980 industrialization was reaching its peak, industrial GDP per capita began to decline, and the region saw its already developed industrial base rapidly dissolve. What followed, then, could be nothing other than years of economic stagnation and a rapid rise in misery and unemployment.

3. Confronting the Crisis

Shortly after, Latin American elites claimed to have found what they believed to be the real reason for the crisis: protectionism, lack of competition, and the bureaucratic and centralizing power of the state [4]. Thus, the solution would be to unlink productive forces from the state and attribute them to the self-regulating power of the market. Countries then embarked on neoliberal adventures, which included an agenda of privatizing industries, free exchange rates, and free movement of capital. The idea sold was that only in this way would it be possible to achieve the levels of development of central countries.

According to Bértola and Ocampo [1], "Commercial liberalization was accompanied by the dismantling of state intervention apparatuses in productive development, which had been designed in the previous stage to promote both manufacturing and agricultural development." With the liberalism motto "the best industrial policy is to have no industrial policy," the consequences were diverse and included: changes in technological policy; elimination of exchange control systems; financial liberalization; flexibility of interest rates; elimination of most forms of state-directed credit; privatization of state-owned enterprises; deregulation of private activities and regulation of financial activities [1].

A significant legacy of this decade is the increasing commercial openness of Latin American countries to the rest of the world (with rare exceptions, such as Venezuela). One consequence of this seems to have been the transformation of structures of export goods and services, as well as a strong restructuring in the agricultural and industrial sectors, which in some cases meant the disappearance of companies and productive branches.

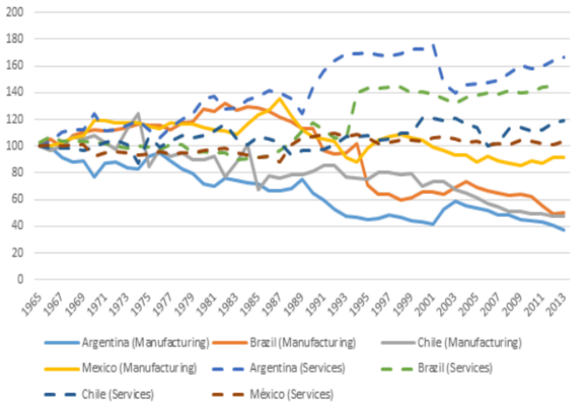

Fig. 1 - Industry and Services - Value Added (% GDP) [3].

A correlation that can be established is the reflection of the increase in openness coefficients in the rise of exports and the slow economic growth that follows the 1980s [1]. Additionally, central variables to explain the position of Latin America post-1980 were: the continuity of technological and productive accumulation in East Asia; the fragmentation of global value chains and the increasing establishment of multinational companies in the region.

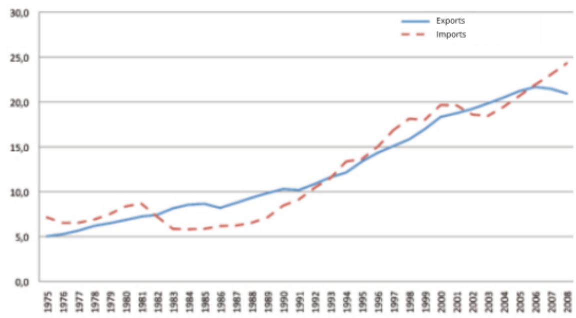

Fig. 2 - Coefficients of Commercial Openness (% of GDP in 2000 US dollars; excluding Venezuela) [1].

According to Antunes [4], "All Latin American countries are currently much more exposed to international competition than in the past. The external sector of each of the economies plays a more important role today than before commercial opening. The balance of Latin America's trade with the rest of the world tends, therefore, to be increasingly negative [...] While in 1974, for example, the trade balance of the region's industry was negative by only U$ 9.21 billion, in 1994 it reached U$ 39.9 billion negative. Thus, the region's dependence on the influx of speculative foreign capital that covers this deficit and allows for a balance in each country's accounts is growing. Thus, both the interest rate paid to these capitals and the hemorrhage of wealth directed to the pockets of international speculative capital are growing."

Around the 1990s, some political worldviews began to clash with orthodox economic views, such as: regional economic integration with the creation of Mercosur in 1991 and the revitalization of the Andean Community and the Central American Common Market; increased public and social spending and increased taxation for revenue collection to strengthen the state.

4. Social and Labor Impact

The social costs of the crisis were of great magnitude, increasing poverty in the region by approximately 8%, worsening income distribution, and raising historical levels of inequality. In addition, there was also a decline in real wages and an increase in the informal job sector [1]. Another notable consequence was the explosive rise in inflation, reaching triple digits and adding to political crises in states such as Brazil, Peru, Argentina, Bolivia, and Nicaragua. Below are two graphs that demonstrate how fatal hyperinflation was for Latin America, surpassing the 100% mark around 1984 and only returning to a level below this about 10 years later, in 1994.

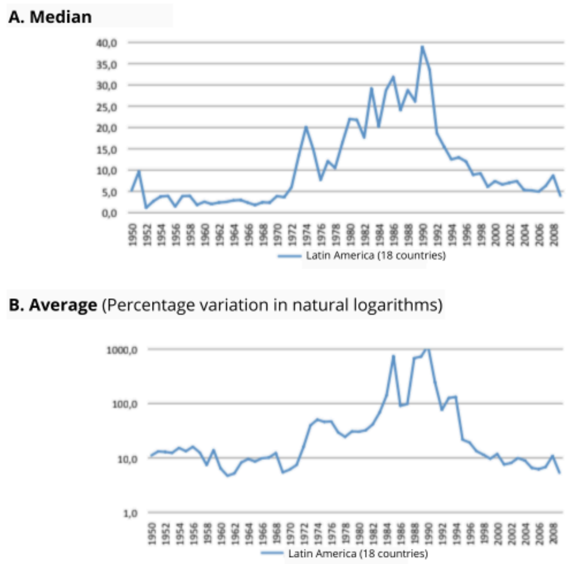

Fig. 3 - Inflation Indices in Latin America (in %) [1].

Social issues were often sidelined when it came to market reforms. They were only addressed when the agenda was about cutting public spending, which naturally led to a deterioration in Latin America's social indicators.

5. Conclusion

Analyzing all the issues addressed above, it is evident the rapid de-escalation of industrialization in Latin America, where this sector ceased to be the engine of development, giving way to an economy focused on exporting primary goods. In line with these changes, Latin American countries lost their positions in global value chains, becoming increasingly dependent on third parties and moving further away each day from what could be their only salvation: reaching the technological frontier.

The consequences of deindustrialization are diverse and mainly affect the population of these countries. The increasing inequality and unemployment that followed deindustrialization became notable. Today, the main areas of economic and labor expansion come from the direct exploitation of nature [4]. An evident concern is the future of these economies specialized in the export of primary goods and low-value-added services, which do not contribute to a chain job generation in the economy and do not collaborate with internal income distribution, with industry, especially value-added, being the most efficient for achieving these objectives.

Latin America seems to be moving further away from the technological frontier, while the little industrialization still existing is being led by the processed manufacturing sector of primary origin products, such as agribusiness and metallurgy [4].

In this sense, it is notable that market reforms did not boost productive forces but only transferred the ownership of the means of production to new hands, for whom national development and social demands are not priorities. Thus, as long as such an irrational structure persists, the trend will be the destruction of nature, the increase in unemployment, the expansion of inequalities, and increasingly frequent social upheavals.

6. References

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